

pensionwise™

A Newsletter for Ontario Teachers • Spring 2004 • Issue 7



Are your children protected?

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As the mother of five, teacher BONNIE PEEBLES knows the importance of designating her children as beneficiaries of her pension benefits.

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Designating a beneficiary brings peace of mind

Bonnie Peebles, a divorced mother of five, sleeps better at night knowing her children will get the biggest pension benefit possible if she dies before retirement.

Bonnie, who teaches in Oshawa, named her children beneficiaries of her pension benefit.

- If Bonnie's children are *not dependent* on her when she dies, they will receive a lump-sum payment, equal to the value of the pension benefit she built after 1986, because she named them beneficiaries. Benefits for service before 1987 go to her estate.
- If Bonnie's children are *dependent* on her when she dies, they will each automatically receive a survivor pension for as long as they remain dependants. They also will share, as beneficiaries, any

lump-sum payable after the estimated cost of their survivor pensions has been subtracted from the total death benefit.

In the absence of a beneficiary, any remaining benefits payable go to Bonnie's estate.

Pensions are automatically paid to dependent children in the absence of a spouse when you die before retirement. Children are considered dependants if they depend on you for support at

Beneficiaries have
received pre-retirement
death benefits
of up to \$350,000.



TEACHERS'
PENSION PLAN

Beneficiary Designation Form

YOUR NAME (last, first, middle)

() -
HOME TELEPHONE

() -
WORK TELEPHONE

YOUR SIN

I hereby appoint the following as the designated beneficiary of any benefit that may be payable from the Ontario Teachers' Pension Plan if I die before my pension starts and I have no eligible spouse at the time of my death. I understand this designation will cancel and replace any previous designations I may have made for my pension benefits. (Please attach a note with the names of any additional beneficiaries.)

NAME (last, first, middle)	SIN (if available)	DATE OF BIRTH (DD MM YYYY)	ADDRESS

YOUR SIGNATURE

DATE

Please fax this form to Ontario Teachers' Pension Plan at 1-800-949-8208 or mail to: 5650 Yonge St., Toronto, ON M2M 4H5.

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KEY FACTS

- It isn't necessary to name your spouse as your beneficiary. An eligible spouse automatically receives all of your survivor benefits.
- Your designated beneficiary comes into play only if you don't have a spouse when you die before retirement and there's still money to pay out after any dependent children have been taken into account.
- When you designate a beneficiary, your heirs save time and money.

the time of your death and are:

- under age 18;
- between 18 and 25 and enrolled in full-time continuous education; or
- disabled and financially dependent.

But there is often a benefit, in addition to the survivor pension, to pay out. This benefit can be substantial if your dependent children are older and will qualify as dependants for only a few more years.

NAMING A SPOUSE ISN'T NECESSARY

Many people name a spouse as their designated beneficiary. But this is unnecessary. An eligible spouse who is living with you automatically receives all of your survivor benefits if you die before retirement. This automatic right to your pension is enshrined in provincial pension law. The only exception to this rule applies when a valid separation agreement or court order assigns part of your benefit to a former spouse.

DESIGNATION SAVES TIME AND MONEY

Naming a beneficiary can save your heirs time and money. Funds are paid directly to the beneficiary, if aged 18 or older, without the delays or probate fees associated with the processing of an estate. Estate taxes are also avoided, although your heirs will pay tax on your death benefit.

HOW TO DESIGNATE

To designate a beneficiary, complete and return the form on page 2. For more information, consult our new fact sheet, *Designating a Beneficiary*.

A copy is available on our Web site at www.otpp.com or by calling 416-226-2700 or 1-800-668-0105. ■

Pre-retirement death benefits can be paid to ex-spouses

A recent court ruling gives you increased flexibility to use pension benefits to equalize family property if your marriage ends.

Before the ruling, the Teachers' pension plan did not pay pre-retirement death benefits to ex-spouses. Now, your ex-spouse can receive a pre-retirement death benefit assigned in a separation agreement or court order, as long as the payment represents no more than 50 per cent of the value of the pension benefit built during the marriage.

A current, eligible spouse is still entitled to survivor benefits, but the benefit will be smaller if death benefits are also paid to an ex-spouse.

The ruling, upheld by the Ontario Court of Appeal on Feb. 10, paves the way for members to assign a portion of their pre-retirement death benefits to their ex-spouses.

In addition, the court ruling allows couples to choose when pension benefits will be valued for the purpose of the division of family property. For example, the couple could agree to value the pension benefit on the date of the member's retirement or death, rather than on the date of separation, as is often the case now.

"We are assessing the full implications of the court ruling and expect to have more information to share with members in the fall issue of *Pensionwise*," said Rosemarie



McClean, vice-president, Member Services.

Married members negotiating separation agreements should seek legal advice on how the recent court decision, arising from a challenge launched by Anne Stairs, will affect their own situation. The court ruled that the Teachers' pension plan should pay a portion of a deceased member's pre-retirement death benefit to his ex-spouse, Anne Stairs, under a separation agreement the couple reached in 1990.

"We cannot provide legal advice about a separation agreement or calculate the value of a pension for the equalization of family property. However, we can review a draft separation agreement or draft court order to determine whether we can comply with its terms," said Rosemarie. ■

Bonds provide stability, help balance risks and rewards

Many people think bonds are dull. But the team that invests bonds for the Teachers' pension plan knows there's nothing boring when billions of dollars are at stake.

A bond is a certificate issued by a government or company, promising to repay borrowed money at a stated rate of interest and time. Bonds mature or

become redeemable after one to 30 years. The plan holds:

- short-term bonds, which mature within three years;
- medium-term bonds, with a life-span of three to 10 years; and
- long-term bonds that mature after 10 years or more.

Generally, when interest rates drop, bond prices rise and when interest rates rise, bond prices drop.

Billions of dollars worth of bonds and other securities are traded every year from the fund's trading room in an office tower in northern Toronto. Transactions take place over the phone or by computer with investors located all over the world. Investors buy and sell securities before their terms come due with the hope of making more than the interest rates payable.

Many people think bonds achieve lower returns than equities, their more volatile cousins, but they can be stellar performers when the right market conditions combine with good investment decisions.



"Our financial results for 2003 show one of the best relative returns for bonds in the fund's history," said Neil Petroff.

FUND INVESTMENTS

■ INFLATION-SENSITIVE ASSETS	30%
■ EQUITIES	50%
■ FIXED INCOME	20%



Roughly nine per cent of the plan's assets is invested in bonds.

"Our financial results for 2003 show one of the best relative returns for bonds in the fund's history," said Neil Petroff, senior vice-president of International Equity Indices, Fixed Income and Alternative Investments.

Income from bonds and money market investments totalled \$1.4 billion in 2003.

Ontario government bonds and debentures continue to be the plan's

largest holdings, with a value of more than \$13 billion.

The second largest holding is Government of Canada bonds, worth more than \$9 billion.

Bonds, along with almost \$2 billion in money market investments, provide the plan with the liquidity it needs to pay pensions each month.

"We manage the liquidity of the entire fund. We're the bank. We manage cash flows and make sure there is adequate capital to pay benefits," said Neil, who joined the plan as a portfolio manager 11 years ago.

"Diversification is the best way to ensure consistent returns."

It's a strategy the bond team has mastered well, outperforming the markets in each of the past four years and adding millions of dollars in value over the benchmark indices. ■

FAST FACTS

IT TAKES AN AVERAGE OF
28
SECONDS TO REACH
A PENSION BENEFITS SPECIALIST
ON THE PHONE.

WE ANSWER
YOUR TELEPHONE INQUIRIES
ON THE SPOT ABOUT

85%
OF THE TIME.

YOU USUALLY
CAN EXPECT A RESPONSE
TO YOUR E-MAILS IN

24
HOURS.

YOU CAN RECEIVE
A PENSION IN

7
FOREIGN
CURRENCIES.

You Asked Us...



Q: Will you be increasing contribution rates or reducing benefits, such as eliminating the 85 factor, to deal with the funding shortfall announced recently in your annual Report to Members?

A: The Ontario government and the Ontario Teachers' Federation (OTF), as the plan's sponsors, are responsible for setting contribution rates, establishing benefit levels and ensuring the plan has enough money to pay future pensions. We cannot speculate on what action the sponsors may take in the future to bring pension plan costs and benefits in line. Our job is to ensure the sponsors receive the relevant information they need to make timely, informed decisions. If the funding shortfall persists, the sponsors must develop a plan of attack by the end of 2005 to bring the plan back into balance.

Q: Someone from the Teachers' plan called me last month to explain what a designated beneficiary means. Is this a new service?

A: Yes, as part of our efforts to improve client services, we have

introduced a proactive communications program. The program is designed to meet your specific needs before you have even identified them. More and more, we will be targeting relevant messages about such things as coming deadlines or beneficiary designations to members by phone or e-mail. Last month we called about 300 members and e-mailed about 700 others to inform them of the importance of designating a beneficiary.

Q: What impact do real interest rates have on the cost of future pensions?

A: When real (after inflation) interest rates drop, we need more money to pay promised pensions in the future. Rates dropped to 2.8 per cent in 2003 from four per cent in 1998, adding \$15 billion to the cost of future pensions in 2003 alone. Based on current real interest rates, we need to set aside \$800,000 today to pay a typical \$40,000 pension, \$200,000 more than in 1998. ■

Federal government suspends caps on income trust investments

Finance Minister Ralph Goodale has suspended limits on pension investments in business income trusts.

"We applaud the minister's suspension of measures that would have seriously curtailed our ability to make money and secure pensions for teachers," said Bob Bertram, executive vice-president, Investments.

The Teachers' pension plan led a broad coalition of the pension industry in opposing the government proposal to allow pension plans to hold only one per cent of their total assets in business income trusts and no more than five per cent in a single business trust.

"The proposed caps on income trusts seriously discriminated against our 250,000 members and the millions of other Canadian workers whose retirement income is managed by pension plans," Bob said.

"The caps would have unfairly

excluded them from benefiting from the growth and stable cash flows income trusts provide."

Income trusts are the fastest growing segment of the market, worth more than \$90 billion on the Toronto Stock Exchange. Income trusts generated almost \$800 million in investment income for the Teachers' plan in 2003 and are an important tool in diversifying risk.

"Our direct investment in business income trusts already exceeded the proposed limits before even considering

the impact of indirect investments, such as derivatives, hedge funds and partnerships," Bob said.

"The caps would have put us at a severe disadvantage in competing for investments against other Canadian and foreign investors, including mutual funds, which were exempted from the proposal.

"The government says it loses tax revenue from income trusts. I think it forgets we sent \$600 million in tax to the government last year alone on behalf of our pensioners," Bob said. ■

FOR MORE INFORMATION, watch a two-minute video presentation on our opposition to the proposed income trust caps. The presentation is one of 11 you can view online in the newsroom section at www.otpp.com. Others include:

- Our 2003 investment performance
- Funding shortfall – the importance of balance
- How the energy sector will help pay pensions in the future
- Why we fight for good governance
- Service improvements for members
- Q&As on topical issues
- How we protect your privacy
- Management compensation – how our bonus structure works
- Ethical investing
- Corporate integrity – high standards at Teachers' plan



Buyback deadline approaches

You have until the end of 2004 to purchase credit for an eligible period of absence from work that ended before Sept. 1, 2001.

To qualify for the purchase, you either must still be away from work or you must have returned to work between Sept. 1, 1996 and Aug. 31, 2001.

Members who returned from a leave of absence that ended after Sept. 1, 2001, have five years from the end of the leave to purchase credit for the time away under

the plan's normal provisions. The 2004 deadline applies only to members who took a leave that ended before Sept. 1, 2001, when new buyback rules went into effect.

News of the coming deadline will be communicated later this year to those eligible members who applied to purchase service for the period.

Members qualify to buy back credit on a contributions plus interest basis for an employer-approved leave or break in service due to ill health or compassionate reasons.

If you qualify to buy credit for a leave that ended before Sept. 1, 2001, and miss the year-end deadline, you forfeit the opportunity to make the purchase. If a partial purchase is made by the deadline, the buyback will be prorated.

For more general information:

- Read our *Buybacks for Absences* brochure;
- View an educational session on iAccess TV (see article *iAccess TV* launched, page 7); or
- Call 416-226-2700 or 1-800-668-0105. ■

McClean welcomes challenge to expand Web services

Rosemarie McClean, the new vice-president of Member Services, is eager to talk about her client services strategy.

"Over the past couple of years, we've introduced Internet services to complement our activities on the telephone. We want to maximize the immediacy and value of the information we provide and the Internet is a great way to do that," said Rosemarie, who was promoted to her new post earlier this year when Allan Reesor retired.

"Our *iAccess* Web site now offers educational seminars and a Document Centre, in addition to a pension calculator and other services. We want members to be able to get what they

need, when they need it, from the comfort of their homes."

Rosemarie is no stranger to the concept of continuous improvement. She joined the Teachers' plan as a pension benefits specialist in 1986, rising through the ranks to the top job in Member Services and a place on the plan's executive team.

Rosemarie holds an MBA from the Rotman School of Management, University of Toronto, and a BA in Economics from the University of Waterloo. ■

ROSEMARIE McCLEAN
brings 18 years' experience
to her new post.



Retrieve correspondence online, quickly and safely

You now can retrieve correspondence from the Teachers' pension plan in your own electronic inbox in *iAccess*, our secure member Web site.

Letters, pension estimates and other written materials, complete with signatures, can be picked up quickly and securely any time in a new online Document Centre.

Here's how it works:

- Call us with a request for information.
- We will notify you by e-mail when a response is posted in your Document Centre, sometimes the same day.



- Log on to *iAccess* to retrieve the information, which can be easily printed.

Before the introduction of the Document Centre, written correspondence about your personal benefits was always mailed to you because the information cannot be transmitted securely in an e-mail message or attachment. E-mail is not encrypted and does not incorporate the layers of security technology built into *iAccess*.

To use the new service, you must be registered for *iAccess*. To register, call 416-226-2700 or 1-800-668-0105. ■

iAccess TV launched

There's now an easy way to attend pension educational sessions without leaving home.

It's *iAccess* TV, featuring online audio-visual presentations designed to help members increase their basic pension knowledge. Narrated by pension benefits specialists, the 10- to 15-minute presentations are the latest addition to *iAccess*, our secure member Web site.

On *iAccess* TV, you can view presentations on:

- survivor benefits and
- buybacks.

More presentations will be launched later this year.

To view the presentations, you must be registered for *iAccess*. To register, visit our Web site at www.otpp.com or call 416-226-2700 or 1-800-668-0105, weekdays from 8 a.m. to 5:30 p.m. ■

You must stop teaching to begin your pension

You cannot begin to collect a pension while employed in the education field. To start your pension, you must resign from your teaching job and sever your relationship with your employer.

A resignation is considered valid only if:

- your Board of Education confirms acceptance of your resignation without condition;
- no arrangement has been made to return to work in education before the latter of your resignation date or our receipt of your retirement application; and
- you have either received or arrangements have been made to pay any applicable gratuity.

If you intend to return to work in the education field after you retire, please refer to the member fact sheet, *Teaching after Retirement*, for more information. It's available in the publications section of our Web site at www.otpp.com or by calling us at 416-226-2700 or 1-800-668-0105. ■

Pensionwise™ is published for members of the Ontario Teachers' Pension Plan at a cost of 19¢ a copy.

We appreciate your comments about anything you read in *Pensionwise*. Please contact Debra Hanna at (416) 730-5351 or 1-877-812-7989, or e-mail: dhanna@otpp.com

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This newsletter does not create any right to benefits. Your entitlements and those of your survivors are and will be governed by the language of the pension plan text. The information contained in this newsletter is not intended to be relied upon in relation to any particular circumstance.

Ce bulletin est disponible également en français.



TEACHERS'
PENSION PLAN

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Test your pension plan IQ

Do you know who is responsible for making important decisions about your pension?

In a recent survey, only seven per cent of members could identify the correct source. Test your knowledge with our quick quiz.

1 Who decides how much members contribute to their pension plan?

- A. The Teachers' Pension Plan
- B. The Ontario government
- C. The Ontario Teachers' Federation (OTF)
- D. The Ontario government and OTF jointly
- E. All of the above
- F. None of the above

2 Who can make changes to your pension benefits, such as improved pensions at age 65?

- A. The Teachers' Pension Plan
- B. The Ontario government
- C. The Ontario Teachers' Federation (OTF)
- D. The Ontario government and OTF jointly
- E. All of the above
- F. None of the above

3 Who is responsible for investing the plan's assets?

- A. The Teachers' Pension Plan
- B. The Ontario government
- C. The Ontario Teachers' Federation (OTF)

D. The Ontario government and OTF jointly

E. All of the above

F. None of the above

4 Who is responsible for paying pensions every month?

- A. The Teachers' Pension Plan
- B. The Ontario government
- C. The Ontario Teachers' Federation (OTF)
- D. The Ontario government and OTF jointly
- E. All of the above
- F. None of the above

5 Who appoints members to the Teachers' Pension Plan Board of Directors?

- A. The Ontario government appoints all board members
- B. The Ontario Teachers' Federation appoints all board members
- C. The Ontario government and the OTF each appoint an equal number of members and jointly select a chair
- D. The Ontario government and the OTF jointly appoint each board member
- E. None of the above

ANSWERS 1. D, 2. D, 3. A, 4. A, 5. C



